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DEPT FOR EEB/IFC/OMA:ASNOW  
COMMERCE FOR ITA:LMARKOWITZ  
TREASURY FOR DWRIGHT  
WARSAW FOR FCS:JMCCASLIN, LCARUSO

E.O. 12958: DECL: 02/18/2019  
TAGS: [ECON](#) [EFIN](#) [RU](#) [LH](#)  
SUBJECT: CHAIRMAN OF LITHUANIAN BUDGET AND FINANCE  
COMMITTEE PAINTS PESSIMISTIC OUTLOOK

REF: A. 2008 VILNIUS 1045  
[1](#)B. 2008 VILNIUS 993  
[1](#)C. 2008 VILNIUS 766

Classified By: Ambassador Cloud for reasons 1.4 (b) and (d).

SUMMARY

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[1](#)1. (C) The Chairman of the parliament's Budget and Finance Committee, Kestutis Glaveckas, painted a bleak economic picture when he met with the Ambassador on February 9. Unemployment is rising and Lithuania might have to ask for IMF help later this year, according to Glaveckas. Swedish parent banks are unlikely to release a significant amount of funding to their subsidiaries in Lithuania which will translate into a continued dearth of credit. The GOL has few policy options with which to address the financial crisis and even less money. He said Russian parliamentarians have informally inquired if Lithuania would want financial help.

IT'S NOT PRETTY

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[1](#)2. (C) Glaveckas said unemployment is now 8 percent and will grow to between 11 and 12 percent this year. He added that tax collections are down, borrowing costs are rising, loans are difficult and expensive to obtain, consumption is contracting and exports, particularly to major markets like Russia and Poland, are declining. He also predicted a GDP decline of 5 percent this year. Glaveckas cautioned that the economic situation might take a turn for the worse in April or May at which time Lithuania might have to turn to the IMF and other states, the U.S. included, for help. In addition, Glaveckas predicts electricity will increase in cost by between 50 and 200 percent after the closure of Lithuania's nuclear power plant on December 31. Also, Glaveckas said the GOL faces declining VAT revenue because Lithuanians living in border regions are taking advantage of lower excise taxes and weaker currencies and shopping in neighboring countries. He also claimed food imports from Poland are denying the GOL VAT revenue.

SWEDES WON'T RIDE TO THE RESCUE

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[1](#)3. (C) Funds from Swedish parent banks for their Lithuanian affiliates are drying up and constricting overall credit throughout Lithuania. Glaveckas said the Lithuanian branches of Swedish banks can only expect, at best, a small injection of funds from their parent groups. He added that small and medium enterprises are feeling the brunt of this dearth of

credit with many likely to fail.

#### FEW ARROWS LEFT IN THE QUIVER

14. (C) The GOL has no monetary measures to address the crisis due to its link via currency board to the Euro and on the fiscal side has had to borrow four billion Litas (about 1.5 billion USD) from the EIB to co-finance programs tied to European Structural Funds. Glaveckas said that borrowing in the private markets is expensive and difficult for Lithuania to do successfully. He said "the world doesn't want to lend." In 2009, the GOL will continue to seek out ways to decrease expenditures and the size of government; in addition to its austerity play (ref B), it has decided to eliminate 28 agencies and give these functions to other institutions. Glaveckas recognized the rise in unemployment that will accompany these actions. Unfortunately, only one billion Litas (about 366 million USD) are available in Lithuania's contingency/stabilization fund and Glaveckas predicted these monies would be completely used in the first or second quarters of this year to cover gaps in the SODRA (like Social Security) budget and fulfill other social obligations.

#### RUSSIAN HELP?

15. (C) Glaveckas said that recently he and some of his MP colleagues had received calls from Russian MPs asking if Lithuania would like to borrow money. He said Lithuania would look to the IMF and USA instead. He added that some medium sized firms might seek to sell themselves to the "East," i.e., Russia. Glaveckas clarified, however, that he

does not have any proof that Eastern investors have bad intentions.

#### COMMENT

16. (C) Glaveckas paints a dire picture. However, his predictions for GDP decline this year track with those of the Finance Ministry. In addition, exports to Russia, Lithuania's largest export market, are likely to continue to decline, with the weakening ruble as well as recent protectionist trade measures implemented by Moscow.

CLOUD